



PUBLIC MEETING

Utah Committee of Consumer Services

Utah Department of Commerce
July 11, 2007



Report: NASUCA 2007 Mid- Year Meeting

Kelly Casaday

Cheryl Murray



Rocky Mountain Power Draft Depreciation Study

Dan Gimble
Ronnie Drake

Depreciation

What is Depreciation?

- Utility generation, transmission, distribution, mining and general plant/facilities have a limited life span.
- Depreciation is a method to allocate the cost of plant into rates over its useful life.
- Formula:

$$\frac{\text{Original Cost} - \text{Net Salvage Value} - \text{Reserve}}{\text{Remaining Years of Useful Life}}$$



Depreciation

Fair and Reasonable Depreciation Rates

- Key issues in determining fair and reasonable depreciation rates include:
 - Plant lives
 - Net salvage value
- Depreciation is a key component in determining total revenue requirement in a rate case
 - Typically 2nd largest expense to fuel



Depreciation

Case Status

- In March 2007, PacifiCorp filed an application with the Commission requesting a change in depreciation rates, effective Jan. 1, 2008.
- Subsequently, PacifiCorp provided a draft Depreciation Study to parties for review.
- PacifiCorp has requested that parties provide input on the draft study and potential Wyoming settlement terms by August 1, 2007.
 - CCS Staff and Consultant have submitted data requests and started their analysis



Depreciation

Case Schedule

- Currently - Parties have filed data requests and are analyzing PacifiCorp's responses
- July 26 – Multi-state Technical Conference
- Aug 31 – PacifiCorp will file updated Depreciation Study and direct testimony
- Oct 14 – Direct testimony from intervenors
- Nov 6 – Rebuttal testimony from all parties
- Nov 14, 16 – PSC Hearings



Depreciation

Staff's Assessment of Depreciation Issues

- Initial Issues:
 - Should the life of coal plants be significantly lengthened?
 - Are Company's net salvage value calculations for transmission and distribution plant reasonable?
 - Other small dollar, bigger principle issues:
 - Treatment of interim plant additions
 - Treatment of fully depreciated plant between rate cases



Depreciation

Summary

- CCS Staff will provide comments to PacifiCorp by August 1st
- Staff and consultant will also support testimony according to schedule
- Staff have concerns about process



Questar Gas Company Integrated Resource Plan (IRP)

Eric Orton
Dan Gimble



Questar Gas Co. IRP

Questar's IRP History

- Questar has filed Integrated Resource Plans (IRP) for 17 years.
- Questar's current IRP process does not have properly authorized guidelines.
 - Approved guidelines were used in first two biennial filings
 - Committee, DPU, and Questar agreed to revised guidelines
 - Commission never took official action on the revised guidelines, but now has requested comment



Questar Gas Co. IRP

Questar's IRP Objectives

- Plan, project and provide for future customer gas requirements
- Analyze system capacity and supply sources
- Provide most reasonable costs long-term
 - Stable prices, reliable service at least cost



Questar Gas Co. IRP

Basic Gas IRP Projections

- Basic gas annual projections for the upcoming year include:
 - Gas production in the area
 - Pipeline capacity in the area
 - Number of customers
 - Average throughput
 - Peak throughput
 - Wexpro production
 - Purchased gas requirements (baseload & peak)



Questar Gas Co. IRP

Basic Gas IRP Projections (cont.)

- Each aspect of the natural gas supply chain is analyzed and evaluated, which includes:
 - Drilling
 - Gathering
 - Processing
 - Pipeline
 - Storage
 - Distribution
 - Customer usage



Questar Gas Co. IRP

Factors Incorporated in the IRP Process

- Local and national economic outlook
- Usage per customer
- New customer growth
- Weather forecasts
- System constraints
- DSM program



Questar Gas Co. IRP

Questar's 2007-08 IRP Proposal

- Meet peak demand day with estimated 1.163M decatherms in January 2008
- Provide approx. 49.6M decatherms of Wexpro gas
- Provide approx. 64.3M decatherms of purchased gas
- Take steps to mitigate market volatility
- Identify and implement DSM measures



Questar Gas Co. IRP

2007-08 IRP Key Points

- Gas prices have risen to an all time high
- Rig drilling has increased
- Well completion costs have risen
- Knowledgeable/skilled people are retiring
- Wells produce less and deplete sooner
- Many hydrocarbon rich areas are off limit
- New pipes are being constructed to increase gas transportation capacity from the Rockies to the East



Questar Gas Co. IRP

Staff's Concerns with Proposed IRP

- Producer imbalance
- Forecast accuracy
- Distribution system constraints and associated facilities around those constraints
- Fuel Gas Reimbursement filing
- Liquid processing facilities and costs
 - Cost/ben of shut-in gas v. new facilities



Questar Gas Co. IRP

Next Steps

- DPU memo to PSC is due August 3, 2007.
 - Substantive comments
 - Comments regarding the process and guidelines
- Staff will submit a memo outlining our issues
 - Some concerns could be alleviated based on data request responses
 - Additional analysis needs to be done regarding the appropriateness of current guidelines



Rocky Mountain Power Integrated Resource Plan (IRP)

Michele Beck



Rocky Mountain Power IRP

Case Status

- Several rounds of discussion and presentation of modeling results
- Draft IRP circulated this spring
- CCS and other parties gave input (late May)
- Official IRP filed
- Comments requested by July 27
- CCS filed for an extension to August 31
 - No parties objected



Rocky Mountain Power IRP

CCS Staff Analysis

- Several categories of concerns:
 - Consistency with guidelines
 - Integrated modeling
 - Risk v. cost tradeoff
 - Resource adequacy
 - Process



Rocky Mountain Power IRP

Consistency with Guidelines

- Does the analysis produce a least cost, least risk plan?
- Is Rocky Mountain Power's business plan consistent with the IRP (or vice versa)?



Rocky Mountain Power IRP

Integrated Modeling

- Inappropriate intermediate screening of potentially good resource options
- Treatment of DSM
 - Not fully integrated
 - Timing of DSM potential study
- Treatment of wind



Rocky Mountain Power IRP

Risk v. Cost Tradeoff

- PacifiCorp uses powerful modeling tools that can quantify different cost and risk tradeoffs
- Results do not seem internally consistent with their own stated intentions
 - Reserve requirement
 - Front office transactions

Rocky Mountain Power IRP

Resource Adequacy

- Cumulative effect of optimistic assumptions may jeopardize resource adequacy
 - Use of “average” forecast
 - Reliance on market
 - Reserve requirement
- PacifiCorp may be trying to mitigate risk of regulatory and policy uncertainty
 - Could be accomplished through more straightforward analysis



Rocky Mountain Power IRP

Process

- Ongoing process that does not appear to incorporate the interim steps
- Request for comments on draft that weren't used
- Unclear tie to ongoing RFP
- Timing of key inputs (ex: DSM study)
- Treatment by the Commission



Rocky Mountain Power IRP

Next Steps

- Interested parties will file memos with the Commission
- CCS staff working as an integrated team
 - Will file comments incorporating concerns outlined today
- Possible Commission hearing



Questar Pipeline Issues

Eric Orton



Questar Pipeline Issues

Issue #1: CHDP Standard

- Cricondentherm Hydrocarbon Dew Point (CHDP) Standard:
 - The maximum combination of temperature and pressure where any given gas remains in a gaseous form.
 - Under the CHDP point, gas becomes a liquid



Questar Pipeline Issues

CHDP Standard

- In 2004 the National Gas Council filed the CHDP White Paper at FERC recommending that pipelines adopt a CHDP tariff
- Few pipelines have seen the necessity of adopting a CHDP tariff to date
- Questar Pipeline recently made a filing at FERC to adopt a CHDP tariff
- Questar Pipeline's objective is to implement the CHDP with no additional costs to its shippers.



Questar Pipeline Issues

Why Does CHDP Matter?

- Liquid gas does not compress, dry gas does.
- Liquid gas has higher BTU than dryer.
- Condensing liquids restrict pipeline flow.
- Some pipelines are not equipped to carry liquids.
- Some liquids increase the probability of acid in the pipe.
- Some interconnecting pipelines do not accept 'wet' gas.



Questar Pipeline Issues

Relevance of CHDP to Questar Gas Co.

- QPC transports QGC's gas.
- QGC's gas (Wexpro) tends to be wet.



Questar Pipeline Issues

Questar Pipeline's Proposed Solution

- QPC will codify current practice of accepting most gas.
- QPC has proposed making zones within its system.
 - Almost all zones wet and one dry (the dry zone runs west from Price to Kern River)



Questar Pipeline Issues

What Does This Mean?

- In most instances, this issue will not have an effect on QGC.
- Exception: some small gas streams might be too wet at certain times of the year and get shut in occasionally.
 - This has occurred only once in the past.
 - However, if the new CHDP is codified into tariff language, it could happen more often with more costs to QGC and its customers.



Questar Pipeline Issues

Staff Analysis

- Any impact on Questar Gas customers would be minimal.
- Appears to be the best option to a “wet gas” problem.
- Much better than the last proposal which was projected to cost $> \$12\text{M/yr}$



Questar Pipeline Issues

Issue No. 2 – Gas Conditioning

- Wet gas currently being removed from Clay Basin may:
 - Violate the new CHDP limits on QPC
 - Jeopardize QGC's storage agreements and abilities at Clay Basin



Questar Pipeline Issues

QPC's Solution to Wet Clay Basin Gas

- Move an existing liquid processing plant to Clay Basin
- Install interconnecting liquid pipes
- Sell liquids on open market
 - For example: ethane, propane, butane
- Divide up revenues from liquid sales to Clay Basin customers (QGC and others)



Questar Pipeline Issues

CCS Staff Analysis

- Appears to be a reasonable solution.
- The only financial risk is associated with the future liquids market:
 - Worst Case Scenario: \$1.9M cost
 - Base Case Scenario: \$2.4M revenue
 - Optimistic Scenario: \$2.9M revenue



Questar Pipeline Issues

Next Step

- Questar Pipeline has filed at FERC:
 - Tariff change for CHDP standard
 - Settlement agreement for Clay Basin processing
- QGC will file to collect any of these costs (CHDP and Gas Conditioning) in the Pass-Through filing this fall.
- The costs will have to be approved by the PSC.
- CCS staff will participate.



U.S. Department of Energy Grant Opportunity

Cheryl Murray

Philip Powlick, State Energy Program Manager



US Dept. of Energy Grant Opportunity

DOE Offers Study Grants

- DOE has recently announced an opportunity for state energy offices to apply for study grants.
- One purpose for the grants is to study and quantify benefits from energy efficiency and renewable energy measures (emissions reduction, water savings, etc.)
- Grants are expected to be between \$100,000 and \$166,000.



US Dept. of Energy Grant Opportunity

Potential Benefits to CCS Constituents

- Mitigate struggle to quantify non-monetary factors in a cost/benefit analysis.
- Provide an analytical framework for incorporating previously unquantified benefits into current regulatory processes, e.g., IRP and DSM.
 - Reduced carbon and other emissions
 - Reduced water requirements
- A quantitative analysis may allow for exploration of a broader range of resource options and better understanding of the effects of resource choices.



US Dept. of Energy Grant Opportunity

Utah Energy Office Seeks Grant Bid

- The Utah Energy Office intends to submit a grant proposal and seeks support from Utah regulatory agencies.
- A letter of support would increase the likelihood of the Utah office receiving the grant.
- A letter of support would have no binding impact on the Committee's business or analysis.
 - The Committee would have full opportunity to review any analysis and recommendations arising from the study.



Other Business/Adjourn
